



POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes January 14, 2010

1. Call to Order

Homan called the meeting to order at 8:32 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	Chairman	X	
Beau Barrett	Citizen	X	
David Carter	Fire	X	
Jim Edwards	Police	X	
Steve Fenner	Citizen	X	
Ron Hoffman	Retiree	X	
Evelyn Honea	Deputy City Manager		X
Sheila Maerz	Human Resources		X
Mary Mannix-Decker	Finance		X
Brady Stark	Police	X	
Chris Thompson	Fire	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – December 17, 2009 (open session)

Homan stated that the minutes from the open session for December 17, 2009 required the board's approval. Homan asked for a motion to approve the open session minutes for December 17, 2009 as presented. Motion made by Hoffman; 2nd by Fenner. Vote all: Yes.

Rushefsky added that the detail of the minutes were extremely helpful in putting together her year-end report to Council. She appreciates the format and thinks it is beneficial for citizens so that they can follow along. Homan said he wants these meetings to be as open and accessible to the public as they possibly can. There are of course items that have to be covered in closed session, but he wants to keep that limited and have as much addressed in open session as possible.

3. Approval of Financial Statement Ending November 30, 2009

Homan asked Barrett to review the financial statement ending November 30, 2009 in Mannix-Decker's absence. The following items of interest were reported:

- As of November 30, 2009 the fund had net assets of \$131,816,632 up from \$112,370,187 at the end of June.
- The cash account ended the month with \$3,103,997, a decrease of \$6.7 million from October. Following the board's direction, in November \$6 million was transferred from cash to Galliard and \$600,000 was transferred to Pictet.
- Employee and Employer contributions totaled \$1,214,497.
- Investment income totaled \$3,700,638.
- Benefit payments and administrative expenses totaled \$1,376,540.
- The net increase in plan net assets was \$3,549,735.
- Galliard outperformed the index and increased \$351,000 exclusive of the \$6 million contribution.
- Brandywine underperformed compared to the index, but the value increased \$277,737 as the share price increased from \$12.73 to \$12.97.
- Pictet slightly outperformed the index and increased in value \$550,000.
- Prudential was not revalued in November.
- We are continuing to transfer 4% from the State Street Global lending account to the non-lending account. Overall the State Street account increased in value by \$2.4 million.
- The City has not received the most recent settlement from AT&T. When the settlement is received and Council takes action on the budget adjustment, the proceeds will be deposited into the Pension Fund.

Edwards asked for a breakdown of the payments made to Milliman in 2009. White will ask for a detailed report and distribute it to the board.

Homan asked for a motion to approve the financials for November 30, 2009. Motion by Carter; 2nd by Thompson. Vote all: Yes.

4. Review of Applications

John Routh	Age & Service	Fire	Retirement Date: 03/13/2010
Angela Burgess	Relinquishment	Police	N/A
Joey Addison	Relinquishment	Fire	N/A

Homan asked for a motion to approve the applications presented above. Motion by Thompson; 2nd by Carter. Vote all: Yes.

5. Approval of Return of Contributions

Angela Burgess	Relinquishment	Police	\$44,716.38
Joey Addison	Relinquishment	Fire	\$28,581.90

Homan asked for a motion to approve the return of contributions for Angela Burgess and Joey Addison. Motion by Hoffman; 2nd by Carter. Vote all: Yes.

6. New Business

- A. August Meeting Date - Homan stated that there are 72 employees eligible to move from Tier II to LAGERS. The board will approve the return of contributions in August for those who elect to move to LAGERS. Given the timing of when the paperwork is due, there is concern about having enough time to process the calculations. Mannix-Decker has requested that the August meeting be moved to August 19th. Fenner made a motion to move the August board meeting to August 19th; 2nd by Stark. Vote all: Yes.
- B. Milliman - Rushefsky asked if some of the assumptions would have to be redone. Homan said yes and Milliman needs to be notified that the plan has closed. Zwiener will need to come back to the board with an opinion on whether the amortization period needs to be changed.
- C. Pension Board Contracts – Mannix-Decker prepared a list of Pension Board contracts that are about to end. One is the contract with Milliman that expires June 30, 2010. Homan said that if the board wants to consider RFPs then this process will need to be started in the next couple of months. Rushefsky stated that Milliman already has the history and will be able to weigh in on whether the amortization period is appropriate now that the plan has closed. Homan agreed but said this is a problem the board is always going to have with changing actuaries because so much history is involved. Rushefsky said she understood that, but thinks we are at a critical stage in terms of making a transition from a relatively open plan to a totally closed plan. Homan added that Milliman's contract really expired last year, but it was extended another year. Wichmer said the contract has the ability to go year to year. Rushefsky said it may make sense to continue with the year to year option for this year because of the special circumstances.

Wichmer again mentioned doing an actuary audit. Several questioned the cost. Wichmer's guess was \$15,000-20,000. Hoffman said he didn't have a problem doing that at all, but the board needs to make sure it is truly an independent audit and not a similar situation to when the investment managers were audited back in 2004. Wichmer recommended making it clear to the auditor that they are not eligible to bid. Hoffman said that was done in this case as well. Homan said now would be the time to do an actuary audit before the contract is up.

Carter recommended starting the RFP process. Since there will be a new board he thinks it might be beneficial to have a new actuary because there is a lot of history between the City Manager's office and the current actuary. The board needs to be clear about whom the actuary is working for and who they are reporting to. Homan stated that all of this was discussed in detail when it came out after the experience study. He said if anyone thought there was any taint or problem it should have been addressed then, but it's not too late now. Barrett if said if the board is considering an independent audit of the actuary it should comment on the procedures and address Carter's concerns. The audit should give a good diagnosis and if one has never been done it certainly wouldn't hurt to do one now. Barrett added that it would either give a comfort level or a concern level. Hoffman said the audit would determine if the processes and procedures utilized were standard with what any actuary would use. He added that it is good practice to do one and the board should probably implement a policy that an actuary audit is done on a certain time frame on a regular basis. He would like to see more procedures like this put in place. Wichmer added that an audit would be protection for the board and show that members take their job seriously. Rushefsky added that it is a good time to do an audit. She suggested that with the transition period going on right now, the board do a one year contract with Milliman and also do the audit. This way the board can get itself in place so that a year from now the change can be made if necessary. The

board would have the necessary data and not have paid the extra money to do the assumptions. Wichmer added that an actuary audit will put misperceptions to bed. He said that other plans do them every five to 10 years. Edwards said that the time it takes to do an audit may require that the Milliman contract be extended for another year. Wichmer said the audit may also reveal that there is no reason to change actuaries. Barrett added that it will probably take about the same time as an accounting audit from the time of scheduling to completion. He thinks it will take several months. Homan stated that he will investigate the audit process. He would like to see what one looks like, the cost and the timeline. Wichmer recommending using an RFP process to hire an actuary audit.

Homan stated that the contract with Davis, Lynn & Moots expires on May 31, 2010. He added that the Segal contract is up on July 17, 2010. He said to keep in mind that there are several things the board is looking into such as getting an opinion on whether a more passive approach is ideal for this fund. Another thing is whether more alternative investments should be utilized. Homan added that Segal has done a good job converting to the current asset mix, but he does question whether they are the best option if the board considers reconstructing the plan so that we don't go through the ups and downs that we have in the last 10 years. He simply feels the board needs to explore its options. Rushefsky said that her impression of Reina is that to some extent he doesn't know what to do with the market. She gets the sense that he's waiting for the board to tell him what to do. Homan added that he works off the cues that the board gives him. He's not criticizing the work that Segal has done. He said that the current allocation is pretty typical of other pension plans from what he understands and it makes sense to him. Rushefsky and Homan agreed that a lot more could have been lost. Rushefsky added that she doesn't know that a more passive approach is a bad thing in this market. Homan agreed, but he also doesn't want to jump off what we are doing now because we are in the process of recouping the losses. Hoffman said he would be interested in knowing how things would have done if a passive approach had been utilized all along. He wants to make sure everyone is well educated on the investment decisions. Everyone knows that there will be close scrutiny.

Wichmer asked if an executive director would handle the investments. He said that LAGERS manages their own investments. Several said the director would not. The director would work with the investment manager, but the board would be looking at a whole different situation if an executive director were to handle the investments. Homan added that there is nothing wrong with investment strategy currently in place. Carter and Hoffman stated that it is probably a struggle for Segal to figure out what this board wants. Carter reminded the board that Reina also has to stay within the allocation mix that Council has established. Homan stated that the question is whether the board wishes to go through the RFP process between now and the middle of June on the investment consultant. He added that the board will address the executive director and what the job responsibilities will be. He said if a more passive asset allocation is desired then there is no need to pay \$60,000 to an investment consultant to overlook that process. A lot of this needs to put over the shoulders of the investment subcommittee which can't be formed until the new board is formed. Homan asked if the board could check into a year to year contract for the time being. Rushefsky said she doesn't think anything should be done until the board is reconstituted. Wichmer and Rushefsky think the new board should be in place by March. Homan asked how long it will take to find willing citizen members. Wichmer said he thinks there will be a lot of applicants.

Rushefsky said all of the critical components of the two ordinances are the same. The only differences are the representation from police and fire. It should set up a regular communication system and it clarifies some of the relationship between the board and Council which we have not

had in the past. At the beginning of 2009 the board agreed that Mannix-Decker would give a quarterly report to Council following the investment consultants report to the board. That didn't happen for various reasons, but should be done now. Rushesfsky added that the communication lines between the board and Council have to keep moving. The board has to make sure Council hears what the board has to say and that they hear the facts.

Carter asked how long the RFP process takes and why the board wouldn't go through the process with all of the contracts. Wichmer said as he sees it the reason the board shouldn't start the RFP process right now is because there may be as many as six new board members. He recommended getting through the board composition issue and LAGERS transition and then we can start addressing these items. He said the RFP process can generally be done in two weeks to 30 days. He said it is really how much tolerance the board has to special meetings. Hoffman said he really thinks the new board has to be a part of this process. Wichmer said he would get the Segal and Milliman RFPs to White and she will route to the board.

Wichmer said the background of the people who will be coming on the board is the same in both ordinances so why not start soliciting members. Rushefsky said that is a great idea and should probably be done.

7. Old Business

Income Verification – Wichmer said that he has had complaints from recipients about the request for spousal income. He thinks that having them produce spousal W-2's can be avoided by using a wage and income transcript which is IRS Form 4506. There are still 26 people who have not complied. Homan added that a verification letter from a CPA may be another option. Barrett said that with the IRS transcript you are getting information that was on their return. You're just not seeing a copy of the return and the actual W-2s. It is coming from the IRS so you can rely on it. However, you will be getting the information as it was originally filed. If they amended their return because of another W-2 or a change it will not be revealed. Barrett said it is an official document from the IRS and you can rely on it the same as you could a W-2. Wichmer added that it is free and he believes it is broke out by individual.

Rushefsky asked if a letter from a CPA and the transcript were equally valid. Wichmer and Barrett agreed that it is doubtful that a reputable CPA is going to lie about a person's income in writing. Wichmer recommended giving those who have not complied 30 days to provide a transcript or a letter from a CPA. Rushefsky said for the record for Wichmer to tell why you would not want a notarized affidavit for disclosure of income. Wichmer said because he would think the board would not trust it. He definitely recommends third party verification. Thompson asked if there is a 100% fool proof system that can be used. Wichmer said yes, they can bring in theirs and their spouse's W-2s. Barrett reiterated that the transcript is an official document of the IRS, but the board must be aware that it can be manipulated to get what they want us to see. He said the board must decide if it is better than an affidavit. Barrett added that it would be caught the following year however. Hoffman said the third party CPA definitely gives additional credibility. Rushefsky said that going to CPA is going to cost them. She doesn't think there is any system that is fool proof. She thinks the board needs to go with what is most reasonable and involves a third party. She thinks the transcript or a letter from a CPA would be acceptable. Eventually they will get caught on the IRS transcript. Wichmer said either one would satisfy him. Wichmer said there are some reductions with those who have already complied. Homan said that would be discussed in closed session, but there is about \$65,000 in reductions.

Nikki White

Stark questioned whether a social security statement would be acceptable. Barrett said that is only for job classifications that pay into social security. Barrett asked if disability claimants are notified before they ever receive a check that they are subject to income verification. Wichmer said absolutely. They know all the rules and regulations. He said what happened was that in the 2000 lawsuit the judge put an injunction in place and the board couldn't ask for the income verification. The board won the lawsuit and decided to enforce it again. Wichmer said the board has the right to go back and verify the income during those years the injunction was in place. However, the board decided that would be an unreasonable hardship on everyone. Hoffman said each one of them was told that they are subject to re-examination and income verification. It's in the book, but we reemphasize it.

Thompson said he's always had a big problem with the income limitation. He questioned why they are penalized for working and earning more money. Homan said the board doesn't have any jurisdiction over it because it is in the plan. Thompson said LAGERS doesn't have income limitations. Several questioned whether they actually don't. Thompson stated that he would like to request a legal opinion in writing from Sheppard that income limitation is legal and enforceable. It was stated that it has already been reviewed in court. Homan asked if there was any reason to think that it is not. Thompson said he has had some people question him about it and he doesn't know. Wichmer said to keep in mind that a disability plan is a benefit and those benefits can be set up however you want. This was argued in court and the board won. Thompson asked if it would be a problem to have that legal opinion in writing. Homan said it would be a matter of whether the board goes to the cost of having it done and the board wouldn't unless there is some reason to suspect that there is something illegal about it.

Edwards said it may need to be researched how LAGERS handles disabilities. Wichmer said it may be worthwhile to have someone explain the differences between LAGERS and the Pension Board's disability system. Homan questioned why that discussion was even pertinent. Why does it matter what LAGERS does? He added that new employees will go into their system and that wasn't the board's decision. He said Tier II have the option to switch if they want, but what does it matter to our plan what LAGERS does.

Thompson said he agrees that it needs to be enforced if it is part of the plan. He just wants to make sure it is legal. Wichmer said all he can say is that it was in court for nearly 10 years and the board won. He added that there hasn't been any complaint about the fact that it exists. The complaint is with providing spousal income. Edwards questioned again if it will change when people go to LAGERS. Wichmer said he would rather have someone else explain the LAGERS system. His understanding is that they are a bit more restrictive, but he doesn't really know.

Homan said that those who have not complied will not receive a check in January. The six that have reported excess income will have a reduced check in January. Carter asked to postpone a motion until closed session as he had other questions he would like to ask at that time.

8. Other matters which fall within the jurisdiction of this committee

Rushefsky asked the board for input on her end of year report to Council that was distributed to the board via email. She asked those who have recommendations to let her know prior to submitting her final report on January 18th. She added that the closing comments were her own personal observations of the board over the course of the year. She feels that it was worded in such a way that it didn't indicate that it was a board position. If not, she will make that clearer. Homan commended Rushefsky for such a thorough report and having it out in such a timely manner.

9. Legal Matters – Closed Session, pursuant to Section 610.021(1), RSMo.

Carter made a motion to move to closed session at 9:55 a.m.; 2nd by Hoffman. Vote all: Yes.

10. Adjournment

Fenner made a motion to adjourn the meeting; 2nd by Carter. Vote all: Yes. The meeting was adjourned at 11:10 a.m. on January 14, 2010.